

REMARKS ON THE IMPORTANCE AND NECESSITY FOR PUBLIC ENTITIES TO ASSOCIATE IN ORDER TO PERFORM EFFICIENT ACTIVITIES OF INTERNAL AUDIT

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In Romania, due to territorial extend of the audited entities, we deal with a great number of isolated departments for internal audit, consisting of 1 to 2 auditors.

The international audit standards recommend that the number of internal auditors should cover at least the minimum of activities performed by the departments for internal audit. Related to this matter, the first-class international practice recommends that their number should be of three internal auditors at least.

The internal auditors of these departments consisting of 1 to 2 individuals encounter particular problems concerning the documentation, standards acquiring or implementation.

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The analysis of organizing and functioning of compartments for internal audit in public institution

Apart from the subjective issues mentioned above, the internal auditors of these departments face also objective issues on the sense that they are not able to insure the accomplishment of some compulsory proceedings within an audit action, such as:

- activity of supervising the method used for internal audit tasks, respectively use of all proceedings, assessment of risk analysis, test examination during the on-site intervention, quality of remarks and recommendations, of internal audit reports, supervision of recommendations implementation;
- ensuring a program for quality development and improvement concerning the internal auditors' work.

The situation mentioned above is encountered both in local and public establishments which are chief credit rulers (city halls) and in other central public institutions (agencies, offices, authorities and others) which are not subordinated or they are not under the coordination or authority of other public organizations, but which make circulate annual budgets of 100,000 to 2,000,000 Euro, consecutively, in 3 - year's time and which, according to the Law no.672/2002 on public and internal audit, they are obliged to found departments for internal audit.

To analyze this matter, the Central Unity for Internal and Public Audit Harmonization - C.U.I.P.A.H. set forth *the assessment report for the current status of internal audit organization in small-sized central and local public entities subordinated to another entity*, discussed by the Comitty for Internal and Public Audit - CIPA, in December 2004.

The conclusion of the assessment report was that within the public and local entities, which make circulate an annual budget, the equivalent of 400,000 euro in Romanian currency, it is difficult to make available the position of internal audit by own forces, the reasons being the following:

- reduced amount of allotted funds;

- limited domain for auditing;
- lack of trained personnel;
- management misunderstanding the part that the internal audit plays.

All these objective limits make it necessary to find out some more flexible methods for making available the position of internal audit within these small-sized public entities and to dissolve the departments consisting of 1 to 2 internal auditors, isolated and spread on territory, founding some effective and operational structures.

The assessment report analyzed the possibility that the internal audit structures, within the territorial General Directorate of Public Finance, should generally perform the audit in small-sized public institutions, chief credit rulers which make circulate an annual budget of 100,000 euro, taking into account that in this case there are only 67 public entities in the entire country.

Meanwhile, the assessment report considered also the possibility of increasing the limit for small-sized public entities from 100,000 to 2.000,000 euro whose regular audit should be performed by the Ministry of Public Finance, as well. In this case, the number of small-sized public entities grows from 67 to 735, meaning that the Ministry of Public Finance can not provide it, not even in the farthest future. All these lead to the conclusion that it is necessary to find out a solution of partnership among these small-sized public entities and together may perform the position of internal audit, in accordance with the International Standards provisions.

To this effect, we recommend *to perform the position of internal audit in association, respectively by creating common structures of internal audit providing the position of audit for more entities with compatible activity domains.*

This method could be used in small-sized public entities, especially those which make circulate an annual budget of 100,001 to 2,000,000 euro, its equivalent in Romanian currency.

In these cases, the association is going to build up on geographical criterion, on main means of communication by joining the entities of the larger villages, cities or towns. Generally, it is recommended that by association to be founded departments of minimum 3 internal auditors in order to provide a complete covering, but it is considered that a structure of 5 to 7 individuals working full-time would be more efficient for the internal audit activity in order to be sorted out on performance criteria.

The executives of public and local institutions, which wish to associate for organizing, operating and performing the internal audit, will keep in view, at least for the start, the following aspects:

- grouping up the public institutions on size criteria in order to create the associations;
- setting up the rights and obligations of the associating institutions executives concerning the conception and provision of headquarters, furniture articles, computers etc., for the internal audit departments;
- selection and working frame for internal audit organizing structure with an executive personnel in order to comply with the law conditions related to professional training, integrity and required objectivity;
- provision of juridical assistance on termination of association contracts, of conditions of executive activity development within the internal audit department;
- effectuation of supervision and control proceedings for norms implementations by the territorial General Directorate of Public Finance

Depending on the amount of activities, as well as on the number of public institutions that form the association, the organizing structure that is under construction -department or office - will include the executive position - departmental manager or head clerk - as well as a suitable number of executives, internal auditors, respecting the legal provisions of the Statute of municipal officers.

The internal audit departments or offices of the associated entities perform internal audit team - work and the resulted reports are presented to inform on and to be approved by the executives of the respective public institutions.

Dependant on the way the activity of the association internal audit department or office goes, the contractual parties could as well anticipate other necessary rules, proceedings and activities, on the basis of the

amendments and completions to be set out and mutually agreed on in the document attached to the initial contract of association.

The internal audit department or office of the local and public institutions association subordinates to the executives of the local component institutions, and for the operational management of the internal audit department is empowered, having the mutual consent of the executives of the local and public associated institutions, the executive of the local and public institution where the internal audit department performs its activity. If the internal audit structures operate within a different headquarters it is essential to be set out an operational executive system for them.

The manager of the internal audit department or office, by the obligation stated by the local and public associated institutions, does not have to get involved in the elaboration of the proceedings for internal control within the local and public associated institutions. Also, the manager is appointed/dismissed by the competent executive of the local institutions, having the approval of the C.U.I.P.A.H.

The internal audit applies to all the activities performed within the local and public associated institutions concerning the foundation and use of the public funds, as well as the administration of the public inheritance, aiming at implementing, according to the law, the internal audit which examines the actions took on the financial effects on the basis of the public funds or inheritance in order to respect the assembly of principles, procedural and methodological regulations which are applicable to them.

Every three years at least, but not restricted to this, within every local and public associated institution, the internal audit department or office of the association audits the following :

- a) the budgetary and legal engagements from where derive directly or indirectly the payment obligations, inclusively the social funds;
- b) the payments took upon by budgetary and legal engagements, inclusively the social funds;
- c) the sale, mortgage, cession or rent of the goods from the private sector of the state or of the territorial and administrative unities;
- d) the cession or rent of the goods from the private sector of the state or of the territorial and administrative unities
- e) the public funds collection, respectively the method used for authorizing and setting up the debt security, as well as for the facilities offered on their cashing;
- f) the budgetary credits allocation;
- g) the accounting system and its liability; the system of taking decisions;
- h) executive and control systems, as well as the risks associated to such systems;
- i) data processing systems.

The territorial structures of the M.P.F., delegated by the C.U.I.P.A.H., will supervise the implementation of these principles performing together with the executives of the local and public associated institutions periodical analyses on the way the internal audit departments or offices organize and carry out the internal audit tasks stated in the activity programme.

The internal audit departments or offices, on the basis of the statutory tasks, periodically report to the executives of the local and public institutions, as well as to the internal audit structures within the territorial General Directorate of Public Finances and within the one in Bucharest, the accomplishment of the legal tasks and the method of implementation, in time and respecting the general norms concerning the performance of the activities of the scheduled internal audit tasks.

The territorial General Directorates of Public Finances and those from Bucharest periodically inform the Territorial Councils of Public Administration on the methods used for organizing, operating and performing internal audit activities within the local and public associated institutions.

The territorial General Directorates of Public Finances and those from Bucharest present to the C.U.I.P.A.H. annual reports on internal audit structure, operation and performance within the public associated institutions.

The C.U.I.P.A.H. annually brings up to the executives of the Ministry of Public Finances the Report on the internal audit activities performed by association with the public associated institutions.

Conclusions

We consider that the suggestion to perform the association of the small-sized internal audit departments is possible and it will have an influence in complying more strictly with the provisions of the international standards and with the first-class practice recognized in the domain.

The manager of the internal audit department or office within the associated public institutions is responsible for organizing and performing the internal audit activity, ensuring, according to the law, the execution of the following tasks;

- a) elaborates and passes on to be approved by the executives of the associated public institutions the methodological norms of internal audit, norms that are put forward to the C.U.I.P.A.H. to give its notice;
- b) elaborates and passes on the internal audit planning to be approved by the executives of the associated public institutions;
- c) carries out the internal audit assignments aiming at the assessment of the financial management and control system within the associated public institutions, paying attention that these comply with the legal, right, economical, efficient and effective norms and presenting to the executives the respective reports;
- d) informs the C.U.I.P.A.H. on the recommendations unimplemented by the executives of the local and public associated institutions, as well as on their consequences;
- e) periodically reports to the public associated institutions the remarks, conclusions and recommendations resulted from the internal audit activity;
- f) elaborates the annual report on the internal audit activities;
- g) in case it is identified any disorder or possible prejudice, he immediately reports it to the executives of the public associated institutions.

Factually making the association represents a structuring issue which will serve all the public institutions involved in association and will have an influence on the performance of some audit tasks in accordance with the norms of each institution and under the conditions of providing corresponding independence and objectivity as the internal auditors concern.

Also, after association, the costs will lessen due to a higher quality and a greater efficiency of the internal audit activity that may direct to reach some elements of performance.

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